

A Work Project, presented as part of the requirements for the Award of a Master Degree in Finance
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Impact of Drones and APAC in GoPro's Business

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This sensitivity analysis aims to measure the impact of two big trends in the sector, particularly in GoPro's business. This analysis was done through the differentiation of 3 scenarios: a best case scenario, a base case scenario and a worst case scenario. The probability of this scenarios is unlikely since it was based under extreme hypothesis.

Action Camera market
APAC Growth
Drone Market

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Appendix III: Rise of the Drones market & demand of consumers in APAC

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In this part of the report, the potential impact of the increasingly Drone market and the APAC's tendency to increase of consumer Electronics demand will be analyzed. Last year GoPro drop the drone market leaving, what for most would be, a huge market opportunity behind.

In recent years the drone market has been growing and penetrating not only in the life of many camera lovers but also in many different business lines. The adoption of drones in core operations are enabling many companies to integrate aerial data in their workflow, improving efficiency and data analytics. Drones are starting to integrate the daily operations in industries like insurance, military, media, agriculture, entertainment, energy, construction and archaeology, among others. The main driver for the drone market remains to be military spending, the "U.S. Department of Defense Fiscal Year" set a budget of \$7 billion in 2018 for Drones related expenses and \$9.39 billion in 2019. It is reported that VCs have already invested a total of 1.5 billion on the past 7 years in drone commercial startups that are modeling the industry. As the market is growing the entrance of strong and innovating competitors have also grown, making too hard for new companies to successfully penetrate in the sector.

When GoPro tried to enter in the market drone, in 2016, was already extremely competitive, and the company was not prepared with the proper competitive advantage to conquer it. The company had lack of technology, expertise and experience in creating an improved and complex device when facing other players with more expertise years ahead of them. This is not the only bump in the road the company faced, the Drones production raised a lot of controversial in the European and American society as it threatened the privacy of individuals. As the reality of drones hit the mainstream, people realized that it could raise privacy concerns, leading to the start of restrictions to the use of these devices. Companies are now facing a hostile regulatory environment in the United States and in Europe that will likely reduce the addressable market in the years ahead. Goldman Sachs forecasts a \$100 billion market

opportunity for drones between 2016 and 2020, held by growing demand from civil and commercial government sectors. The worldwide consumer market is still in its first steps. It represents the smallest size on the other high-end consumer electronics as the Action cameras, smart wearables, videogame consoles and tablets, but this is about to change. Reuters expects that in the next 5 years, 2019-2024, the smart commercial drones market will register a 89.5% CAGR and the global market size its predicted to reach \$65 300 Million by 2024, from the \$1 410 Million of the current year. Despite the presence of competition problems and IT costs, investors are still optimistic about this area, it is expected in both previous studies that more new investment will enter on the field. The strong development of this this market may affect GoPro's market share.

APAC is the region with more anticipated high growth in the consumer electronics market. This growth is mostly driven by the increasing population and growing disposable income that have been in economies like Japan, South Korea, China and India. The continued extension of the mobile devices industries in these countries are expected to dominate the market. As the APAC region is growing, it is forecasted that a higher demand for consumer electronics, as in the drone market as in the Action Camera market may take place in the years that follow.

Taking all of this into account, a scenario analysis was developed taking into consideration 3 different Case Scenarios.

1. The base scenario, where Drone's market stays stable or even grow without harming GoPro's market share; APAC's demand for consumer electronics grows as forecasted in the original model.

2. The best-case scenario, where we can test what would happen if the upcoming regulation damage the Drone's market, decreasing its share in the Consumer electronics market allied with an increased demand in the APAC region for such electronics products, specifically for GoPro. In this scenario we test the falling of the Drone market leading to an increase of 1% in the GoPro's market share for the forecast years, and in the APAC demand for such products GoPro's cameras.

3. The worst-case scenario foresees an expansion of the Drone market at a higher rate than any other consumer electronic, reducing the GoPro's market share at a rate of 1% a year for the forecasted years (2020 – 2030). In this case we assume that APAC's Demand for consumer electronic will grow at the same rate as the forecasted in the original model.

Exhibit1: Drone's Market Revenue by Sector (in billions)

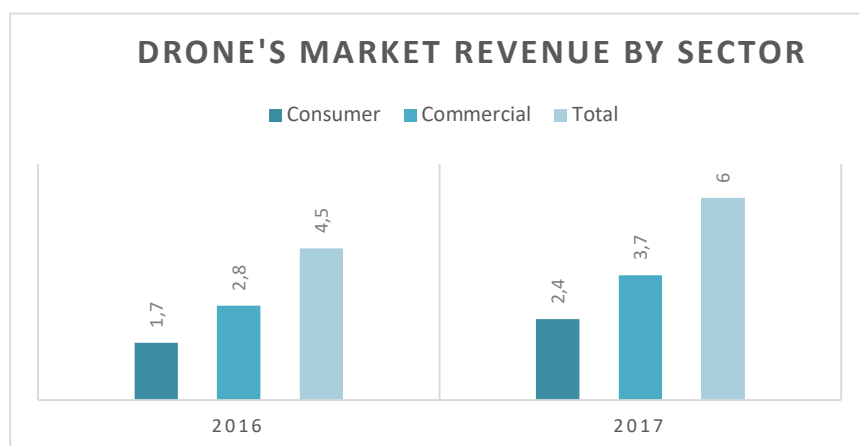


Exhibit 2: Scenario Analysis

Best Case Scenario - 20% probability

Driver	Change	Share Price
APAC	1 percentage point increa	5,63
Market Share	1 percentage point increa	5,64
Equity value with total scenario	814 072,81	
Share price with total scenario	5,64	

Worst Case Scenario - 20% probability

Driver	Change	Share Price
APAC	No changes	4,31
Market Share	1 percentage point Decre:	3,31
Equity value with total scenario	477 542,39	
Share price with total scenario	3,31	

	Probability	Share Price \$	Recommendation
Base Scenario	60%	4,31	Hold
Best Scenario	20%	5,64	Buy
Worst Scenario	20%	3,31	Sell
Expected Equity Value	544 848,47		
Expected Share Price	4,37		

The impact on the share price of the company, as we can see in Exhibit 2, is not that great changing only in +\$0,06. Also, these scenarios are not dangerously likely, they are very extreme and different from the base case Scenario.

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